



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Carl W. Mosher

**SUBJECT: MUNICIPAL WATER SYSTEM
NON-PERSONAL/EQUIPMENT
BUDGET**

DATE: 5-14-04

Approved

/s/

Date 5/21/04

COUNCIL DISTRICTS: 2, 4, 7, 8

BACKGROUND

The Proposed Operating Budget for 2004-2005 as presented by the Administration calls for a 4 percent increase in potable water rates in areas serviced by San Jose Municipal Water System (SJMWS). On May 13, 2004, during the Operating Budget Study Session, Councilmember Cortese requested an explanation on why a 4 percent potable water rate increase is needed, while the 2004-2005 Non-Personal/Equipment budget shown on page VII-187 of the Proposed Operating Budget is 0.2% less than it was in 2003-2004.

ANALYSIS

In 2003-2004, as in previous fiscal years, SJMWS budgeted a \$1,000,000 buffer for wholesale water purchases in the Non-Personal/Equipment budget. Dry and hot weather conditions greatly impact the amount of water purchased from Santa Clara Valley Water District and San Francisco Public Utilities Commission. As a result, it is difficult to accurately predict the amount of water that is needed from year to year. For the current fiscal year (2003-2004), \$11.6 million was budgeted but we project that \$10.6 million will be spent, leaving the entire \$1 million buffer unspent.

For 2004-2005, the budgeting process was revised and the \$1,000,000 buffer was eliminated because a Rate Stabilization Reserve in the amount of \$1,018,000 was established and incorporated in the ending fund balance to cover unanticipated expenses. We expect to spend \$11.6 million for water next year as a result of the wholesale rate increase, and this is the amount that was included in the budget. If we had continued the method of including \$1,000,000 buffer, the Non-Personal/Equipment budget would have been 6.8% higher in 2004-2005 than it was in 2003-2004.

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ANALYSIS (CONT'D.)

Attached is the chart comparing wholesale water rate increases to Muni Water rate increases over the past nine years.

/s/
CARL W. MOSHER
Director, Environmental Services Department

Municipal Water System Rate Increase

Wholesale Water Costs vs. Muni Water Rates

